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NEW PROBLEMS OF GOVERNMENTAL EFFICIENCY

BY A. N. HOLCOMBE

United States Bureau of Efficiency

I shall attempt to consider only one of the many new problems of governmental efficiency—a problem created by the immense increase in governmental expenditures for military and naval purposes. The total appropriations already made by the Government of the United States for the fiscal year 1918 are between eighteen and nineteen billions of dollars. Contract authorizations to be met by future appropriations amount to two and a half billions more, making a grand total of over twenty-one billions of dollars which the government may spend or obligate itself to spend during the current fiscal year. This is more than ten times as much as ever before. Of this amount seven billions were appropriated for loans to the Allies, but these loans, when made, will be expended mostly within the United States. The total volume of authorized governmental expenditures, American and allied, to be made in the United States may therefore be reckoned at twenty billions.

Such enormous expenditures bring to the government new responsibilities. I am only calling your attention to what you already know, when I refer to the dislocation of established industry that followed the entrance of the United States into the war. The ordinary processes of competitive business failed to afford the requisite quantities of materials and supplies for the government without impairing the normal supply of household necessities for the people of the United States, to say nothing of new obligations towards the allied governments and peoples. The government was forced, in making its vast purchases, not only to protect its own interests, but also those of the public, and of friendly Europe. The question of fair prices for itself was bound up with that of fair prices for all legitimate purchasers. But fair prices imply fair profits and wages to the producers. In times like the present, therefore, a government purchasing policy should pursue the following objects: (1) to secure reasonable prices for purchases by the government on its own account; (2) to secure reasonable prices for all consumers, that is, to prevent profiteering; (3) to secure distribution of commodities according to need rather than according to ability to pay; and (4) to secure for

wage-earners a reasonable share of the profits of industry without the interruption of industry itself.

Now the problem is—and this is the problem I shall consider in this paper—How should the purchasing agencies of the government be organized in order that these objects may be most effectively pursued? The policy of the government with respect to the supply of labor during the war has already been discussed at these meetings. I shall deal only with the problem of administrative organization, which the volume of war purchases has created.

On the one hand are the advocates of centralization. They urge that power and responsibility should be lodged in one body, so that a uniform policy may be adopted and a due coördination of governmental enterprises be attained. They fear that, without central control of all military and naval purchases, separate departments like the War and Navy and independent establishments like the Shipping Board Emergency Fleet Corporation will bid against one another, not only for materials and supplies, but also for labor. This would make it difficult, if not impossible, for the government to secure any of the objects which a wise purchasing policy should pursue. On the other hand are the advocates of decentralization. They urge that the task is too vast for any one body; that the President is now indeed the one central authority which the advocates of centralization are seeking; that since there must be a division of labor in the expenditure of so many billions, the most efficient organization is one built up on functional lines like that existing at Washington when the United States entered the war.

The bulk of the twenty billions, more or less, which may be spent through government agencies this year, will be expended through four separate agencies: the War Department, the Navy Department, the Shipping Board Emergency Fleet Corporation, and the Purchasing Commission of the Allies. The War Department, which is authorized to spend this year, speaking roughly, about three times as much as the Navy and the Emergency Fleet Corporation combined, makes its expenditures mainly through the offices of the Quartermaster-General, the Chief of Ordnance, the Chief of Engineers, the Chief Signal Officer, and the Surgeon-General. The actual drawing of contracts is further subdivided in each of these offices. The office of the Chief of Ordnance, for example, through which more money will be spent than through any of the others, comprises ten divisions. Five of these, the Small Arms, Gun, Carriage, and Equipment Divisions, and the Ameri-

can Base Depot in France, purchase the arms and ammunition used by the Army. A sixth, the Nitrate Division, will build and operate the government fertilizer factories. Not only the division officers at Washington, but also the officers in charge of arsenals manufacturing arms and ammunition directly on governmental account, may draw their own contracts for materials and supplies, though they require the approval of the Chief of Ordnance. The other offices of the War Department are likewise subdivided according to their respective functions, and the responsibility for the preparation of contracts correspondingly apportioned. In some divisions seven copies of contracts are made. One goes to the contractor, one to the inspector on the job, one to the division disbursing officer, one to the auditor for the War Department, one to the Returns office in the Department of the Interior, one is filed in the office of the chief of the division, and one is retained by the division law officer who prepared it. The Secretary of War receives none. Thus the principle upon which the machinery is organized for the purchase of materials and supplies for the Army, is that of administrative decentralization.

This system of administrative decentralization was the result of bitter experience during the war with Spain. It was devised and put into effect by one of the ablest secretaries of war this country has had, Elihu Root, and was approved and maintained by a line of able secretaries down to the present, including such men as former Secretaries Taft, Stimson, and Garrison. Its advantages under normal conditions are obvious. This system has not been carried so far by the Navy Department and the Emergency Fleet Corporation as by the War Department, but neither the Navy nor the Fleet Corporation will spend so much money this year as either the Quartermaster-General of the Army or the Chief of Ordnance. Thus the purchasing organization of the military and naval establishment (including the Emergency Fleet Corporation), as it stood when the United States entered the war, regarded as a whole, afforded an excellent illustration of administrative decentralization.

The agency which many advocates of centralization have believed offers the best promise of realizing their hopes is the Council of National Defense. By section 120 of the National Defense Act of June 3, 1916, relating to the purchase or procurement of military supplies in time of actual or imminent war, the President was authorized to appoint a Board on Mobilization of Industries essential for Military Preparedness. The title indicates

somewhat vaguely what the board was expected to do, but no powers were conferred upon it by the act, nor were any members ever appointed by the President. Subsequently, by the Army Appropriation Act of August 29, 1916, the Council of National Defense was established, "for the coördination of industries and resources for the national security and welfare," as the act phrased it, consisting of the Secretaries of War, the Navy, the Interior, Agriculture, Commerce, and Labor. Its duty was further defined to be to supervise and direct investigations concerning a variety of matters relating to the national defense and make recommendations to the President and the heads of executive departments.

It is well to note that the Council of National Defense was created only to investigate and recommend. It received, and has today, no power to enforce decisions, nor even to make decisions, unless controversies are voluntarily submitted to it for adjudication. In order that it might the better perform its duties, it was directed to appoint an Advisory Commission of not more than seven members, and the latter was in its turn authorized to organize subordinate bodies to assist in special investigations. This it might do either by the direct employment of experts or by the creation of committees of specially qualified persons, serving without compensation, to direct the investigations of experts employed by them. After the rupture of relations with Germany, the Advisory Commission proceeded to organize an array of committees which, printed solid in eight-point type in the Congressional Record, occupied eighteen double-column pages. These committees were composed of business, professional, and labor men, most of whom served without pay. Many of their members have given and are giving the government excellent service, but many of the committees seldom if ever met. Several of the committees consisted of representatives of industries whose products were in demand by the Army, Navy, or Emergency Fleet Corporation. Such committees were active enough when the prices to be paid by the government for their products were under consideration, but not at any other time. Some of these gave disinterested and valuable advice. Others were not above suspicion of putting their own interests before those of the government. Congress put an end to that feature of the Council's system of committees by a rider on the Food Control Act of August 10, 1917, forbidding any per-

son, acting either as a voluntary or paid agent of the United States, to attempt to influence the awarding of a contract in the profits of which he was directly or indirectly interested. Thereupon the Advisory Commission and its array of committees faded away.

Indeed there had already appeared a tendency to organize boards of various kinds directly under the Council of National Defense regardless of the Advisory Commission. The most important of this new order of committees was the War Industries Board. This board was created to supply the information and advice, formerly supplied by the General Munitions Board and a number of smaller committees, with respect to purchases of materials and supplies for the military and naval establishments. An Aircraft Production Board and committees on shipping and on transportation were carried over from the original organization to cover portions of the field not covered by the War Industries Board. The Committee on Shipping, however, seems to have been absorbed by the Shipping Board, since Mr. Hurley, once chairman of the Committee on Shipping, became chairman of the Shipping Board, and the chairman of the committee on transportation, who was also chairman of the Advisory Commission, Mr. David Willard, has since become chairman of the War Industries Board itself. The Aircraft Production Board has since been reorganized by Act of October 1, 1917, into an Aircraft Board (Mr. Howard Coffin remaining at its head), and is directed to advise the officers of the Army and Navy in charge of the aviation service.

Meanwhile the Navy Department, through its Paymaster-General at the head of the Bureau of Supplies and Accounts, had built up an energetic purchasing system. The Navy was reluctant to merge its organization, which had served its needs well enough, as it thought, into the War Industries Board, in the interest of a theoretical coördination of purchasing agencies. Though retaining a representative on the War Industries Board, the Navy has made little use of its services. The Shipping Board has no representative on the board and makes no pretense of using its services. The War Industries Board consequently serves almost exclusively as an adviser to the War Department, and chiefly to the Quartermaster-General and the Chief of Ordnance. But these officials would seek advice on matters relating to contracts for food, not from the War Industries Board, but from the Food Administration, and on matters relating to coal from the Fuel Ad-

ministration. Thus, despite the Council of National Defense, the government's purchasing system remains as it was at the beginning of the war, highly decentralized.

The War Industries Board is drawing fewer contracts today than were being drawn by the General Munitions Board six months ago. It is still making recommendations within the scope of its authority with respect to prices, but the contracts are actually let by the bureau chiefs of the War and Navy Departments, and by the Emergency Fleet Corporation. The Allies, on the other hand, who formerly maintained separate purchasing agencies in this country, have centralized the management of their purchasing. They now buy all their materials and supplies (except food and fuel) through or with the advice of one Purchasing Commission, which works in close coöperation with the War Industries Board. The champions of centralization urge the adoption of a similar policy by the United States. Thus, the United States Chamber of Commerce, at its war convention, held last September at Atlantic City, formally recommended that all war buying should be assembled under the control of one board or executive department.

It may be conceded that the government, through its various purchasing agencies, has not fulfilled all the obligations for which it may properly under present conditions be held responsible. The War Industries Board has arranged agreements with producers of many kinds of materials and supplies, by which prices were settled for purchases on government account. The same board has arranged agreements with copper and iron and steel producers by which prices were settled for all legitimate purchasers. The Aircraft Production Board, now the Aircraft Board, has furnished much good advice to the Chief Signal Officer of the Army and to the Navy on the building of the great aerial battle fleet. The Food Commission has fixed minimum prices for wheat, and the Fuel Administration, maximum prices for coal. But profiteering has not ceased; and the distribution of materials and supplies according to ability to pay is not yet replaced to the extent that is desirable by distribution according to need.

I believe, however, that the most promising method of dealing with the existing situation is not to assemble all war-buying under control of one board or executive department. A merger of the War Industries Board and the Aircraft Board, for instance, with power not only to recommend prices and even contractors, but also to conclude contracts, would not reach the heart of the problem. That does not lie in the placing of orders but in their execution.

Suppose that there is a shortage of electric power in a great industrial district, say in the Pittsburgh district, and that some of the consumers of electric power in that district must curtail their consumption or altogether forego its use. Shall it be the steel plants whose expanding demands has perhaps contributed most of the shortage? Or shall it be the munitions factories which take the steel and convert it into arms and ammunition? Or shall it be the local public utilities, the street railway and the lighting service? And who shall decide these questions?

The steel plants may be making heavy guns for the Army or armor for the Navy or structural shapes for the Shipping Board, or all of these products for the Allies. Should the War Department or the Navy Department or the Shipping Board, to say nothing of the Allies, have power to intervene and protect the supply of electric power to the steel plants? And what if both the Army and the Navy prefer to divert the supply of electric power to the munitions plants in order not to curtail the production of small arms or ammunition, whilst only the Shipping Board on account of its interest in structural shapes rallies to the support of the steel plants? The conflict of interest and the division of authority go farther than this. In the War Department, for example, there is the Quartermaster-General whose only interest in the matter may be the output of motor trucks. There is the Surgeon-General whose only interest may be the output of surgical instruments. There is the Chief Signal Officer whose only interest may be aeroplanes. There are the chiefs of Ordnance and Engineers with their respective interests in arms, ammunition, and building materials. Each of these is responsible only for the work under his charge, and under no obligation to consider the needs of the others. No one of them can justly decide such a controversy as that arising from a shortage of electric power in the Pittsburgh district. To be sure, one of them, acting under authority of the National Defense Act of June 3, 1916, or of the War Appropriations Act of June 15, 1917, might perhaps requisition an electric power plant and thus take what power was needed by the steel plant or munitions factory in which he was interested. But if one could do this, all could do it. There would be no solution of the problem. Nor can the problem be solved merely by the centralization of war purchasing. The fundamental problem is that of priority in production, and can be dealt with only by a properly constituted priority board with adequate jurisdiction, whether the letting of contracts is centralized or not.

Or, consider a more difficult problem. Suppose that a Waterbury clock factory, together with the skilled workers therein, is wanted by the Chief of Ordnance for the manufacture of, say, machine-gun cartridges. Shall the Chief of Ordnance be free to commandeer the factory, assuming that he has the power under the National Defense Act? It may be that the output of that particular factory is destined mainly for the export trade, either with South America or Asia, to be exchanged for nitrate or copper or wool or jute or other products necessary for the equipment and maintenance of armies. It may be also that exchange with the countries where those commodities are produced is heavily against the United States, and that such exports are sorely needed to restore the balance. Thus production of clocks for export to South America or Asia may be a matter of great interest to several government offices, about which the Chief of Ordnance may know little or nothing. There is the Federal Reserve Board in the Treasury Department, which is responsible for the protection of our stock of gold. There is the Bureau of Foreign and Domestic Commerce in the Department of Commerce, which is laboriously building up our trade with South America and the Far East, and may have laid plans to capture the trade in clocks. There is the Food Administration, which may want to divert ships from the South American to the transatlantic trade in order to carry food to the Allies. There is the Shipping Board which is trying to diminish the shortage of bottoms by various means, among others, presumably, by shortening long water hauls, whenever possible. The War Trade Board represents all these interests, and more. But it has no power to settle such a question as that raised by the proposal to commandeer a Waterbury clock factory. Nor should it have such power, for it does not represent either the Army or the Navy. Indeed some arm of the military or naval establishment other than the Ordnance Department may be able to put the clock factory to even better use than the manufacture of machine-gun cartridges. The Navy, for example, might perhaps use it to better advantage for the manufacture of signal rockets or depth bombs.

Furthermore, the problem of priority in production is a double problem. It is necessary to consider both priority in manufacture and priority in transportation. Questions of priority must be considered from a broader point of view than can well be possessed by any existing organization. For their determination is required a different kind of organization, not a greater centraliza-

tion of existing organizations. The War Industries Board, like the War and Navy Departments, is organized on functional lines. Its vision is limited by the functions it represents. What is needed is a Grand Priority Board, to use Mr. William Hard's phrase, which shall be organized not on the ordinary functional lines, but to represent the various aspects of a national war policy. Just as the organization of the General Staff of the Army cuts across the lines of bureau organization, so the organization of a Grand Priority Board or Civil General Staff should cut across the lines upon which the War and Navy Departments, and independent establishments like the Shipping Board, are organized.

The foundations of such a Civil General Staff have already been laid. The first organization chart of the Council of National Defense showed no priority committee. There was, however, an Interdepartmental Advisory Committee out of which eventually developed the present Clearance Committee. This committee is nominally composed of representatives from each of the dozen or more purchasing offices in the War and Navy Departments plus the Emergency Fleet Corporation and Food Administration and Allies' Purchasing Commission. Of these, however, only the army members seem to be regular in their attendance. It is now closely connected with the War Industries Board, and is destined apparently to promote so far as possible the most efficient distribution of orders for materials and supplies, that is, such a distribution as will give rise to the least possible number of questions of priority when manufacturers find themselves unable to fill the orders of different purchasing agencies with sufficient promptness. When such questions arise they are referred to the Priority Committee of the War Industries Board. This committee has power to issue priority certificates to manufacturers in cases submitted to it for adjudication. In general, only the War Department submits cases. The Navy and the Shipping Board do not look upon it with favor. There is no attempt to lay down a general policy for all manufacturers. In short the Priority Committee of the War Industries Board is not much more than an adjunct to certain bureaus of the War Department.

More progress has been made in the development of machinery for determining priority in transportation. By the Act of May 29, 1917, the Interstate Commerce Commission was authorized to establish rules with respect to car service, in order to deal more effectively with the car shortage. This measure proved ineffective, and a further step was taken by the Act of August 10, pro-

viding for priority in transportation. By this act the President was authorized, if he deemed it necessary as a war measure, to direct that such traffic as he shall judge essential shall have preference either with respect to the supply of cars, or with respect to movement, or both. He designated Judge Lovett the chairman of the Priority Committee of the War Industries Board, to exercise his powers under this act. Judge Lovett has issued several priority orders. Of these order No. 5, issued in December, is the most important. This order gives first preference both in supply of cars and in movement, to coal for steam railroads; second, to live-stock, food, and perishables; third, to munitions, and other military and naval supplies; fourth, to coal for by-products coke ovens; and fifth, to coal for hospitals, schools, and private consumption, for public utilities and for industrial establishments. Finally, on December 28, the government took over the management of the railroads, and assured itself the power most efficiently to enforce this and other priority orders.

The further development of a Grand Priority Board or Civil General Staff is dependent not only upon proper organization but also upon adequate information. The statistical division of the Council of National Defense has already begun to supply such information. It is attempting to keep a record of all war contracts and deliveries, of establishments producing war supplies, of estimated future war needs, of prices of munitions, of current shipping supplies, of production of raw materials, and of other information. But much remains to be done.

Such is the foundation of the Grand Priority Board or Civil General Staff which is needed at Washington. The form of the organization is foreshadowed, but the parts are yet scattered. The policy of decentralized administration in the making of war-purchases is sound. There seems to be no necessity for taking further power from the Quartermaster-General of the Army, or the Chief of Ordnance, or the Paymaster-General of the Navy, or the Emergency Fleet Corporation, to confer it upon the War Industries Board. But the Priority Committee should be made independent of the War Industries Board and the Council of National Defense, granted a broader jurisdiction, assigned more certain powers, brought into close relations with the Director General of Railroads and his priority administrator, and with the Shipping Board, and provided with adequate means for procuring information.